

RESOLUTION NO. 37-09

PERTAINING TO THE ADOPTION OF A DEBT POLICY

WHEREAS, the Board of County Commissioners for Calvert County, Maryland, has general authority to adopt policies for Calvert County, Maryland; and

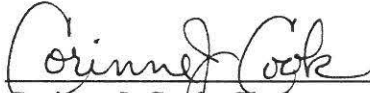
WHEREAS, 2009, MD Acts, c. 693, requires that each local government unit adopt a local debt policy; and

WHEREAS, the Board of County Commissioners for Calvert County, Maryland, met in public session on September 22, 2009, and determined to adopt the Debt Policy.

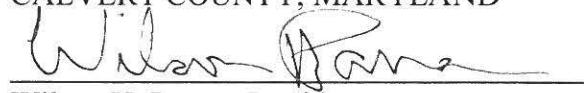
NOW, THEREFORE, BE IT RESOLVED AND ORDAINED, by the Board of County Commissioners for Calvert County, Maryland, that the Debt Policy, attached hereto as Exhibit A, BE and the same hereby IS adopted as the official Debt Policy for Calvert County, Maryland.

DONE, this 22 day of Sept., 2009, by the Board of County Commissioners for Calvert County, Maryland, sitting in regular session.


ATTEST:


Corinne J. Cook, Clerk

BOARD OF COUNTY COMMISSIONERS
CALVERT COUNTY, MARYLAND


Wilson H. Parran, President

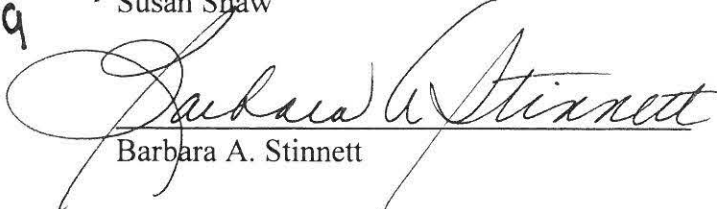
Approved for legal
sufficiency on 9/22/09
by


Emanuel Demedis
County Attorney


Gerald W. Clark, Vice President


Linda L. Kelley


Susan Shaw


Barbara A. Stinnett

Received for Record 9/24 2009
at 9:15 o'clock 31 A.M. Same day
recorded in Liber KPS No. 31
Folio 136 COUNTY COMMISSIONERS
ORDINANCES AND RESOLUTION.



**PERTAINING TO THE AMENDMENT OF THE DEBT POLICY
FOR CALVERT COUNTY, MARYLAND**

WHEREAS, Section 17-207 of the *Local Government Article* of the Maryland Annotated Code, requires the Board of County Commissioners of Calvert County, Maryland (hereinafter, the "Board of County Commissioners") to adopt a local debt policy;

WHEREAS, the Board of County Commissioners did adopt such a policy as set forth in Resolution No. 37-09, *Pertaining to the Adoption of a Debt Policy* (hereinafter referred to as the Debt Policy");

WHEREAS, the Office of Finance and Budget has recommended that the Board of County Commissioners adopt certain amendments to Debt Policy, more specifically set forth below;

WHEREAS, a public hearing regarding the certain amendment of the Debt Policy of Calvert County was duly advertised in for two consecutive weeks before the public hearing held on November 19, 2013, at which time the Board of County Commissioners received public comment;

WHEREAS, upon due consideration of the comments of the public and staff and in furtherance of the public health, safety and welfare, the Board of County Commissioners finds that it is in the best interest of the public health, safety and welfare of the citizens of Calvert County, Maryland to adopt certain amendments to the Debt Policy as set forth herein.

NOW, THEREFORE, BE IT RESOLVED that the Board of County Commissioners of Calvert County, Maryland hereby approves and enacts the following amendments to the Debt Policy:

1. Section IV of the Debt Policy shall be amended by repealing section IV of the Debt Policy in its entirety and adopting in its place the following:

§IV. Debt Limits.

- A. The County periodically requests authorization from the General Assembly, which specifies a not to exceed principal amount of bonds that can be issued pursuant to that authorization.
- B. The County has a Debt Affordability model that it uses to determine the amount of new debt the County can afford to support. The model is driven by revenue and growth assumptions with established standards controlling the amount of new debt to be issued over the life of the CIP. The County uses the following guidelines in deciding how much additional General Obligation Debt may be issued in the six-year CIP period:
 - The ratio of General Fund Debt Service to General Fund Revenue; 9.5%;
 - The ratio of General Fund Debt to Assessed Value of Taxable Real Property; 1.8%; and

- Other standards as may be appropriate.
2. Section VII, DEBT MANAGEMENT POLICIES, Subpart (E), *Debt Management Policies*, shall be amended by repealing Section VII, Subpart (E) in its entirety and adopting in its place the following:

E. Each year in conjunction with the adoption of the capital budget, the Capital Projects Analyst will file a "Declaration of Official Intent to Reimburse." This provides the County with the right to reimburse itself from future General Obligation Debt issues for capital costs advanced prior to the issuance of the debt. These reimbursement rights are subject to rules promulgated by the Internal Revenue Service.

BE IT FURTHER ORDAINED by the Board of County Commissioners of Calvert County, Maryland that the Debt Policy, as amended hereby, shall remain in full force and effect.

BE IT FURTHER ORDAINED by the Board of County Commissioners of Calvert County, Maryland that, in the event any portion of this Policy is found to be unconstitutional, illegal, null or void, by a court of competent jurisdiction, it is the intent of the Board of County Commissioners to sever only the invalid portion or provision, and that the remainder of the Policy shall be enforceable and valid, unless deletion of the invalid portion would defeat the clear purpose of the Policy, or unless deletion of the valid portion would produce a result inconsistent with the purpose and intent of the Board of County Commissioners in enacting this Policy.

BE IT FURTHER ORDAINED by the Board of County Commissioners of Calvert County, Maryland that the foregoing recitals are hereby incorporated and adopted as if fully set forth.

BE IT FURTHER ORDAINED by the Board of County Commissioners of Calvert County, Maryland that this Policy shall be adopted and effective upon recordation, which shall be no sooner than ten (10) days from the date of adoption.

DONE, this 19th day of November, 2013, by the Board of County Commissioners of Calvert County, Maryland, sitting in regular session.

Aye: 5
Nay: 0
Absent/Abstain: 0

(Signatures on following page)

ATTEST:

**BOARD OF COUNTY COMMISSIONERS
OF CALVERT COUNTY, MARYLAND**

Maureen L. Frederick
Maureen Frederick, Clerk

Pat Nutter
Pat Nutter, President

Steven R. Weems
Steven R. Weems, Vice President

Approved for legal sufficiency on
November 14, 2013 by:

Gerald W. Clark
Gerald W. Clark

John B. Norris
John B. Norris, County Attorney

Susan Shaw
Susan Shaw

Evan K. Slaughenhoupt Jr.
Evan K. Slaughenhoupt Jr.

Received for Record December 2, 2013
at 10:45 o'clock A. M. Same day
for 43 LIBRARY NO.
For 402 COUNTY COMMISSIONERS
OF CALVERT COUNTY AND RESOLUTION.

John P. Smith

13...
10:45
A
43
402

DEBT POLICY FOR CALVERT COUNTY MARYLAND

This debt policy is intended to provide Calvert County management with written guidelines and restrictions affecting the amount, issuance process and type of debt issued. The County uses debt to spread the costs of public facilities/amenities (Capital Projects) over a longer period of time. The citizens using the facilities in the future will be the same tax payers supporting the general fund's payment of debt service.

I. INTRODUCTION

- A. This Debt policy reflects the combined practices of Calvert County (also referred to as the "County") with respect to long-term debt management. Debt policies are written guidelines and restrictions that affect the amount and type of debt issued by Calvert County.
- B. This debt policy is to be used in conjunction with the operating and capital budgets, the Capital Improvement Program (CIP) and other fiscal policies.
- C. Adherence to debt policies signals to the rating agencies and the capital markets that Calvert County is well managed and will meet its obligations in a timely manner. Following this debt policy will enhance the quality of debt related decisions by imposing order and discipline and by promoting consistency and continuity in decision making. Adherence to this debt policy will help to ensure that Calvert County maintains a sound financial position and credit quality is protected. This debt policy demonstrates the County's commitment to long-term financial planning and will be positively regarded by the municipal market when reviewing Calvert County's credit quality.
- D. Calvert County's debt policy is intended to apply to most forms of long-term obligations including General Obligation Debt, capital leases, State revolving loan funds, conduit debt, and inter-fund borrowings. Vested leave and health care benefits, while they fit the definition of long term debt, are not intended to be covered by this policy.

II. QUALIFYING USES OF DEBT/PROHIBITIONS ON THE USE OF DEBT

Much of the CIP is expected to be funded with debt. Capital assets usually have a long useful life and will serve future, as well as current, taxpayers. It would be inequitable and an unreasonable fiscal burden to make current taxpayers pay for capital projects out of current tax revenues. Accordingly, debt issues are advisable, necessary and equitable.

- A. Debt issued for projects should have a term equal to or less than the useful life of the asset financed.
- B. Prior to considering debt as a source of funding capital projects, the County shall determine if other potential revenue sources, such as pay-as-you-go (Paygo), intergovernmental aid or private contributions are available.
- C. Projects costing less than \$500,000 will not be funded from borrowings unless as a part of a group of projects.

- D. The County may share funding with municipalities in their projects if it is clear that the County will receive the benefit of these projects.
- E. The County will consider issuing debt to improve leased property only if the County has a non-cancellable lease on the property that exceeds the economic life of the asset and the maturity of the debt.
- F. The County will only issue debt to construct or acquire public facilities for which it expects to sustain future annual operational and maintenance costs. By providing a yearly budget to the Buildings and Grounds division and consistent with the philosophy of keeping the capital facilities and infrastructure systems in good repair and to maximize the capital stock's useful life, the County will set aside sufficient revenue from operations to fund ongoing normal maintenance needs.
- G. The County has no intent to issue long-term debt to reduce the unfunded liability of the Pension Trust.
- H. The County has no intent to issue long-term debt to reduce the unfunded liability of the Other Post Employment Benefits Trust.
- I. Long-term debt may not be used to finance ongoing and recurring operational expenditures and expenses.

III. TYPES OF DEBT INSTRUMENTS

A. General Obligation Debt

1. General Obligation Bonds – General Obligation (“G.O.”) Bonds are the most common form of debt instrument for Calvert County. These are generally tax-exempt and are backed by the full faith and credit of Calvert County. General Obligation Bonds are issued to finance the purchase, construction and equipment of infrastructure and facilities for a wide variety of functions such as transportation, public schools, community college, public safety, roads and highways, bridges and other programs. Calvert County issues General Obligation Bonds pursuant to authorization granted from time to time by the Maryland General Assembly at the request of the County.
2. Bond Anticipation Notes (BANs) - These are generally short term in nature and are issued as interim financing for a variety of financial reasons. On occasion BANs may be issued in one or more smaller amounts before a single larger size G.O. issue is executed. Proceeds of future G.O. Bond issues would be used to pay off the BANs. State law permits the issuance of BANs by Calvert County.
3. Agricultural Land Preservation Installment Purchase Agreements (IPAs) – These are general obligation debt instruments to fund purchases of property development rights and are backed by the full faith and credit of Calvert County. When these agreements are entered into, a treasury security is purchased to pay the principal when due. Because of this source for payment, this debt is not part of Debt Affordability calculations.

4. State of Maryland Revolving Loan Programs – The loan programs the County regularly participates in are those offered by the Maryland Department of the Environment. Interest rates are generally lower than those for which the County qualifies on its own merit in the open market. On occasion, loans may be for no interest. On some loans, the State assesses fees to supplement the low interest rates.
 5. The recently enacted American Recovery and Reinvestment Act (“ARRA”) provides a number of taxable and tax-exempt financing options, some with a limited duration. Calvert County will review appropriate ARRA options and utilize them where such an issuance would benefit the County.
- B. Other Forms of Debt
1. Revenue Bonds
 - a. Revenue Bonds are secured by the pledge of particular revenues to their repayment. The revenues pledged may be those of a Special Revenue or Enterprise fund, or they may be derived from revenues received from or in connection with a particular project, all or part of which is financed from the proceeds of revenue bonds.
 - b. Revenue Bonds are generally tax-exempt and structured to be self-supporting. Because they are self-supporting they are excluded from Debt Affordability calculations.
 - c. Revenue-based debt generally carries a higher interest rate but allows a direct relationship between the cost of a project and the users who benefit from it.
 2. Interfund Loans – Loans may be extended between funds of the County. In such an event, interest rates will be determined by the Board of County Commissioners. No inter-fund loans will be executed without a plan of repayment to the affected fund.
- C. Other Financing Mechanisms
1. Capital Leases – this form of financing is used regularly for the purchase of substantial equipment that may not qualify to be financed with General Obligation Bonds. The term of this form of financing is typically five to ten years. The equipment being purchased is sometimes the collateral for the leases. Capital Lease agreements are subject to annual appropriation.

IV. DEBT LIMITS

- A. The County periodically requests authorization from the General Assembly, which specifies a not to exceed principal amount of bonds that can be issued pursuant to that authorization.
- B. The County has a Debt Affordability model that it uses to determine the amount of new debt the County can afford to support. The model is driven by revenue and growth assumptions with established standards controlling the amount of new debt to be issued over the life of the CIP. The County uses the following guidelines in deciding how much additional General Obligation Debt may be issued in the six-year CIP period:

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- There are guidelines relative to:
 1. The ratio of General Fund Debt Service to General Fund Revenue
 - Set at 9.5%;
 2. The ratio of General Fund Debt to Assessed Value of Taxable Real Property.
 - Set at 4.5%;
 3. The ratio of Debt Per Capita
 - Set at \$1,500;
 4. Other standards as may be appropriate.

V. DEBT STRUCTURE: TERM

- A. Bonds are typically issued for 15 years. The Agricultural Land Preservation Installment Purchase Agreements (IPA) program typically limits terms to between ten (10) and twenty (20) years. When bond market conditions warrant, or when a specific project would have a shorter useful life, then different repayment terms may be used.
- B. Capital Leases generally have a term of five to ten years.
- C. County debt issues may be structured for repayment with near level debt service payments or level principal payments. Current County practice has been to utilize the near-level debt service payment method to facilitate the budget process.
- D. The size of the debt issue should be such that economies of scale are reached with regard to issuance costs, including but not limited to Bond Counsel, Financial Advisor, and rating fees.

VI. METHOD OF SALE

- A. Competitive sales should generally be used for General Obligation Debt issues. Negotiated sales may be used if the Board of County Commissioners (BOCC), in conjunction with the Director of Finance and Budget and the County's Financial Advisor, determines that such a sale method is in the best interests of the County.
- B. Electronic bidding systems should be encouraged in order to enhance participation.

VII. DEBT MANAGEMENT POLICIES

- A. The County will at all times manage its debt and sustain its strong financial position, including healthy reserves, to seek and maintain the highest credit rating possible. As established in Resolution No. 13-96, based on recommendations by certain bond rating agencies, an Undesignated Unreserved Fund Balance of \$10 million or eight percent (8%) of the current operating budget whichever is greater shall be maintained as detailed in the resolution.
- B. The County may seek credit enhancements such as letters of credit or insurance when necessary for marketing purposes or cost effectiveness.
- C. The County will consider utilizing debt service reserve funds for certain debt issuances if advantageous to the County for marketing or cost mitigation purposes.
- D. The County will monitor compliance with bond covenants as applicable. Bond covenants are generally related to Revenue Bonds or special obligation debt.
- E. Each year in conjunction with the adoption of the capital budget, the Capital Projects Coordinator will file a "Declaration of Official Intent to Reimburse." This provides

the County with the right to reimburse itself from future General Obligation Debt issues for capital costs advanced prior to the issuance of the debt. These reimbursement rights are subject to rules promulgated by the Internal Revenue Service.

VIII. FINANCING MECHANISMS

- A. The County pledges its full faith and credit to repayment of all General Obligation Debt. Accordingly, paying principal and interest on General Obligation Debt is the absolute first claim on County resources.
- B. In addition to its general income and property tax resources the County may allocate portions of certain revenue sources to the repayment of its General Obligation Debt
- C. The County will consider various financing techniques, including fixed or variable interest rate debt, to minimize the interest costs over the life of the issue. These techniques will be evaluated based on market conditions and risk.
- D. Use of Derivatives/Swaps
 - 1. A derivative is an instrument that receives its value from or gets its value from another instrument, asset, index or event. County policy is to not use derivatives. Any use of derivatives would require a revision to the County's current policy. This policy is not intended to preclude the investment by the County in U.S. Treasury STRIPS (Separate Trading in Registered Interest and Principal Securities) and, in particular, the County may invest in STRIPS in connection with its agricultural land preservation program.
 - 2. A swap is an interest rate exchange transaction. County policy is to not enter into swap agreements. Again, any use of Swaps would require a revision to the County's current policy.

IX. REFUNDING

- A. The County, in conjunction with its Financial Advisor, will monitor its outstanding debt in light of current debt market conditions and will refund any qualifying debt when sufficient savings can be realized.

X. POST-ISSUANCE ADMINISTRATION/ARBITRAGE

- A. In connection with each issuance of debt the interest on which will qualify for exemption from federal income tax, the County will execute such certificate(s) and file such information returns as Bond Counsel advises are necessary and appropriate to establish qualification for such exemption.
- B. Subsequent to the issuance of any issue of tax-exempt debt the County will comply with such requirements for the maintenance of the tax-exempt status of the interest payable on the debt (including without limitation restrictions related to arbitrage yield restrictions, rebate of arbitrage profits, and private business use) as are contained in the certificate(s) referenced in paragraph X.A or as may otherwise become applicable to the debt subsequent to its issuance.
- C. The County intends that its tax-exempt debt be issued in such amounts and at such times relative to the expected expenditure of proceeds as to reasonably expect, as of

the time of issuance, that the expenditure of proceeds will qualify for an exception to the arbitrage rebate and yield restriction rules of federal income tax law.

- D. The investment of unspent bond proceeds shall be in accordance with the County's Investment Policy, the tax certificate executed by the County in connection with the issuance of such debt, and the trust indenture or other documents, if any, entered into by the County in connection with the issuance of the debt and imposing restrictions on such investment.
- E. All trust accounts will be closed timely when no longer needed.

XI. CONTINUING DISCLOSURE

- A. The County will comply with all disclosure requirements established by the Securities and Exchange Commission.
- B. The Continuing Disclosure Agreements can be found as an appendix to every Official Statement.

XII. SERVICE PROVIDERS

- A. The BOCC is responsible for establishing a selection and contracting process for professional services relative to the issuance of debt. The criteria used in selecting service providers include quality of services, cost of services, experience in their respective expertise, and ability and willingness to comply with the County's terms and conditions. The main service providers include:
 - 1. Financial Advisor
 - a. The Financial Advisor's primary role is assisting in the issuance of General Obligation Debt.
 - b. The Director of Finance and Budget shall advise the BOCC relative to the solicitation for, selection of and contract duration of the Financial Advisor.
 - c. The County shall not limit itself to having a single Financial Advisor or firm under contract at any one time if desired.
 - 2. Bond Counsel
 - a. As part of its responsibility to manage outside attorney contracts, the County Attorney will work closely with the Director of Finance and Budget and advise the BOCC relative to the duties and responsibilities and the solicitation and selection of and duration of employment for Bond Counsel.
 - b. Bond Counsel's primary role is assisting in the issuance of General Obligation Debt.
 - c. In addition to debt related issues, Bond Counsel may be employed to handle issues related to tax matters and Internal Revenue Service procedural issues.
 - d. The County shall not limit itself to having a single Bond Counsel firm under contract at any one time if desired.

XIII. CREDIT RATINGS

- A. The County's ability to borrow at the lowest cost of funds depends upon its credit standing as assessed by major credit rating agencies.
- B. In order to enhance the County's position in the debt market, the Director of Finance and Budget will be responsible for determining whether ratings will be requested.
- C. The Director of Finance and Budget is responsible for maintaining relationships with these agencies and keeping them informed relative to material economic events that occur in the County between debt issuances (between official rating events). The BOCC, Bond Counsel and the County's Financial Advisor may be consulted when determining whether an economic event is of significant proportion to qualify for such a notification.
- D. The County shall maintain adequate systems of internal control, comply with applicable laws and regulations, and conduct its financial affairs in such a way as to sustain a strong financial position in order to maintain the highest credit rating level possible.

XIV. ADMINISTRATION/RESPONSIBILITIES

- A. The BOCC is responsible for implementing and revising these policies as appropriate.
- B. The Director of Finance and Budget is responsible for:
 - 1. The administration of these policies.
 - 2. Analyzing debt issuances or other debt related proposals, responding to such proposals and recommending to the President of the Board of County Commissioners if in the opinion of the Director of Finance and Budget, or their designee the proposed financing agreement is beneficial to the County and complies with the County's long term financial strategy.
- C. The Director of Finance and Budget, based upon advice and counsel from the Financial Advisor and Bond Counsel, may deviate from the guidelines established in this Debt Policy on a case by case basis, as may be warranted in particular circumstances, with the advance approval of the BOCC.